

WOMEN'S BUDGET GROUP RESPONSE TO ACCOUNTING FOR PEOPLE TASK FORCE CONSULTATION PAPER – July 2003

The Women's Budget Group welcomes the Consultation Paper by the DTI Task Force on Accounting for People.

In her Review of Women's Employment and Pay (December 2001) Denise Kingsmill said that "gender should be mainstreamed throughout the analysis of human capital management". While we like a number of suggestions in the consultation paper, we think the task force could and should go further in mainstreaming gender throughout its' work, and to this end we make the following comments and suggestions:

We welcome the efforts made by the task force to combine a flexible approach and a common core of minimum reporting, and we believe that this approach is the best one for the inclusion of gender issues as well. Given the lack of data so far available with gender breakdowns, organisations are often unaware of how the key gender issues in their HCM link with their performance. Examples of best practice for the process of identifying the key gender HCM issues in an organisation can be found from the Equal Opportunities for Women in the Workplace Agency in Australia where reporting on this issue is mandatory, and from Catalyst in the US and Opportunity Now in the UK, as well as the EOC and the Women and Equality Unit. We think that the task force must find a way of referencing and highlighting such guidance in it's report and recommendations because gender equality/diversity is itself a key HCM issue that affects productivity. We believe that the key gender issues in human capital management will be ignored by many managers and not reported on effectively unless organisations are specifically encouraged to think about this, and given guidance on how to identify the issues, and on best practice reporting in this area.

Identification of the key HCM issues within an organisation:

The consultation paper asks for comments on **the value of organisations' reporting on what they identify to be their most important HCM issues, focusing particularly on those issues concerned with maintaining an appropriate skills base and with employee motivation (paragraphs 17-18).**

Transparency: In paragraph 19 it is noted that the investment community and other stakeholders would welcome identification by company managers of the most important HCM issues in their organisation, and we agree that this is probably the most useful and flexible way to start the process of reporting on HCM. Given the difficulty in identifying universally applicable HCM performance indicators, we would agree that organisations identification

of their own key issues in this area is a sensible approach. We would add, however, that it is very important that the process used for identifying the key HCM issues for an organisation be transparent to all stakeholders, and we strongly suggest that the task force recommends such transparency as part of any minimum standard.

We agree with the approach laid out in paragraph 18 which suggests that organisations are encouraged to identify the HCM issues which link most strongly to performance, and to report on these using both quantitative and qualitative information that relates to both practices and performance. The focus on the maintenance and development of the skills base, and the factors affecting employee motivation, is clearly sensible in the light of the literature. Both these issues have gender dimensions that can easily be missed if organisations are not specifically encouraged to think about them.

In terms of **developing the skills base**, this needs to apply to all employees, and it has been shown that there are many invisible barriers to women's advancement in the workforce which effectively prevent women from developing and contributing in full to the organisation. In house training, the identification of potential, and flexible working arrangements are issues that need addressing if women in non-managerial jobs are going to be able to develop, and improve their skills. Stereotyping and preconceptions of women's roles and abilities, lack of role models and mentors, exclusion from informal networks, and failure of senior leadership to assume responsibility for women's advancement are some of the things that prevent women getting the general and line management experience that they need, and holding them back from developing their skills and moving to senior levels. The barriers to women's advancement will be different in each organisation, so the important issue is that these barriers are identified as part of the process of HCM. If this is not done, women leave and the organisation can lose its' skills base in some important areas, and add to its costs. Equality programmes have been shown to help attract and retain the highest calibre female employees, and to help them develop to their full potential within an organisation. For example the WEU Good Practice Guide on advancing women in the workplace states: "Policies and practices such as part-time and flexible working, childcare vouchers and so on, are very influential in retaining trained staff and the skills they offer". It is essential that gender equality/diversity be taken in to account in policies and practices that aim to develop the skills base of an organisation and we would hope that the task force would draw attention to this and include it in the guidance that it gives.

Gender equality/diversity is an important factor affecting **employee motivation**, especially if half your workforce are women. Flexible working arrangements have been shown not only to affect staff retention, but to create greater staff commitment, and motivation within the organisation. Such policies, often brought in as a result of equality initiatives, have been known to benefit both men and women, and improve organisational flexibility. It is not surprising that a belief that they are not being treated

fairly leaves staff less likely to give their best to an organisation and that changing this improves motivation. An equal pay audit, if carried out well and acted upon, can have the affect of improving staff trust in the organisations commitment to fairness, and thus affect staff commitment and motivation. These are further reasons for equality policies and practices to be included in any common core of minimum reporting standards.

Other relevant research: We welcome the fact that the task force reviewed recent research on HCM, but are aware that mainstream studies on HCM have largely lacked a focus on gender and diversity. There is a separate body of research developing on the link between good gender equality/diversity practice, good overall organisational HCM, and performance. It focuses not just on the key issues that relate to building the skills base, and employee motivation, but also on other areas where HCM impacts on performance, such as innovation. Research by the SIGMA project on sustainability management guidelines for management felt it was not as yet clear how innovation could be integrated successfully within a management system, beyond a commitment at the level of vision. However the work on gender and diversity in the workplace has shown a link between equality in HCM and innovation. In it's report "equality and excellence: the business case" Opportunity Now sites one of it's findings as the case for gender diversity as an aid to innovation, and states that "Organisations which manage teams effectively, bringing together disparate styles and talents, will reap the rewards in terms of superior innovation." In fact this has been one of the main factors inspiring leadership in a number of organisations to prioritise gender and diversity in their HCM policies. An example of this comes from Edwald Kist, Chairman of the Executive Board at ING who was a keynote speaker at a recent conference on Women in Leadership: A European Business Imperative, and stated innovation as one of the main aspects of the ING business case for diversity saying that; "If two people always agree, one of them is redundant".

Building the business case and best practice: The literature on equality in HCM and organisational performance also focuses on the importance of equality in employee consultation and the contribution that this can make to quality improvement practices and outcomes. Increasingly best practice organisations are building their own business case for gender equality and diversity, and developing a plethora of different ways to implement best practice in this area. For example, firms, such as Xerox, include diversity in their measurement of total quality management. Others such as Shell measure diversity as a leadership competency and include it within their people metrics in their balanced scorecard mechanism for strategic planning. ING among other things supports the inclusion of diversity objectives as part of the Performance Management Systems of ING top 200 managers. There are many other examples.

Identifying the most important HCM issues should include identifying the most important gender equality issues: In short, there is

considerable evidence that improving gender equality/diversity can contribute to good HCM and organisational performance, and improved products and services, in a number of different ways depending on the organisation and sector. Many organisations do not as yet realise this, and the work on this issue has not yet been adequately incorporated in the mainstream work on HCM and its reporting. We therefore suggest that any guidance given by the Task Force to managers on issues to consider in the process of identifying the most important HCM issues in their organisation, should include identification of the key gender issues that are most important to their organisations' effective HCM. While we appreciate the need for the task force not to be overly prescriptive, we believe that this is a central HCM issue, and that the task force could, within a flexible approach, include guidance on these issues within any core minimum reporting guidelines.

Data: quantitative and qualitative reporting:

The consultation paper asks for comments on **whether, in addition to organisation-specific reporting, all organisations should be encouraged to report on the size and profile of their workforce, employee motivation, training and development, and remuneration and fair employment (paragraphs 19-21),** and on **how far there should be central guidance on the most appropriate numerical measures (metrics) to be included in these reports, or whether this is something best left to individual organisations (paragraphs 22-24)**

We believe that there needs to be some central guidance on the most appropriate metrics for reporting on HCM practices that includes guidelines for reporting on the key gender issues, and that this should not just be left to individual organisations to decide (paragraph 24).

We note the widespread interest from US institutional investors (paragraph 19) for information on **workplace profile**, which is specifically linked, in brackets, to equal opportunities and diversity. This supports the position of the WBG in calling for HCM data to be provided with gender breakdowns. We are pleased that in paragraph 21 the task force states that it wants to further explore the case for encouraging organisations to report on the size and composition of the workforce including data disaggregated by gender. We think that organisations may well need specific guidance on how best to do workplace profiles, and hope that requirements for data showing the percentage of women workers at different grades, with different types of contract, and working part-time or full-time, would also be included here in any minimum standard (Please see our submission paper for our views on the data breakdowns needed).

We welcome the inclusion in paragraph 21 of the issue of **remuneration and fair employment**, and the flexibility built in by asking organisations to indicate their own approach to pay and incentives and the means by which

they satisfy themselves that they do not discriminate unfairly in pay or employment. We welcome the example given of equal pay reviews as a way of fulfilling obligations in this section. We believe that there is a strong case for encouraging organisations to report on these issues.

Employee motivation and staff training and development: We also support the encouragement to report on the other issues raised in paragraph 21. However, to enable adequate analysis of gender equality issues in HCM, and to ensure that the entire working population is included in any measures to improve the skills base and employee motivation, we believe that the other information sought in paragraph 21 and 22 must be asked for with gender breakdowns. This paragraph suggests reporting on employee motivation, as well as data on staff turnover and absentee rates, "set in context and disaggregated as necessary to show impact on the skills base". We believe that organisations should be asked specifically to give this information with gender breakdowns so that retention rates for women are illuminated. Without this requirement organisations may not do this. This section goes on to say that "this might include information on arrangements for gathering employees' views and suggestions including results of staff satisfaction surveys where conducted". We believe that employee consultation is central to good HCM and that reporting on this should be required. However, once again, information about staff satisfaction and views needs to be gathered with gender breakdowns for the organisation to be able to identify whether there are particular issues it needs to address in order to increase the satisfaction and motivation of its women employees, so this should be recommended here. Finally, reporting of information about staff training and development suggested in this paragraph should also be given with gender breakdowns in order to ensure that any discrimination which affects the development of the skills base of women employees is identified.

The Kingsmill Review of Women's Employment and Pay said that "data should include, as a minimum, information on recruitment, retention, grading, promotion, training and pay" (paragraph 5.43), and we would hope that the task force is able to find a way to put forward the suggestion that best practice HCM reporting should include all this information with gender breakdowns in all data. Indeed it would be possible to suggest this as best practice within whatever reporting style an organisation decided to adopt.

Paragraph 22; inputs, outputs, and impacts. As Denise Kingsmill recommended in her review (paragraph 5.43) "data should be provided wherever possible as to how the various output related measures apply to each gender". We believe that this should apply equally to information about inputs and impacts.

Metrics: We recognise (paragraph 23) that HCM practices are strongly affected by context, making comparisons difficult, and that the scope for specifying common metrics is at present unclear. We would support the

suggested approach in paragraph 24 to favour an evolutionary approach starting with a fairly general set of recommendations, with progressive improvement as measurement and reporting arrangements develop, but would re-iterate that we believe that some central guidance on appropriate metrics for reporting on HCM practices is necessary if we are to improve on the poor record of organisational reporting on the gender specific information that is central to evaluating HCM strategy.

In addition: The effectiveness of both HCM and specific diversity strategies are dependent on leadership from the top. The Kingsmill Review strongly recommended (paragraph 5.48) “the introduction of human capital and diversity objectives into the Key Performance Indicators on which the remuneration and appraisal of the senior management team will depend.” As noted above, some of the best practice organisations are already doing this, and in order to spread best practice, we believe that information about this should be included in core minimum reporting requirements.

In the same paragraph Kingsmill said that “In practice the top-level strategic direction through which the CEO and the board give their personal endorsement and commitment to the proposed human capital strategies can be generated through the placement of the Director of People or Human Resources on the board”. We suggest that information about whether this is the case also be included in the minimum reporting requirements.

Possible reporting mechanisms

The consultation paper asks for comments on **how best to ensure that HCM is both widely reported and the information is trusted by investors and other stakeholders as relevant, reliable and consistent, and what obstacles there might be to such reporting. In particular whether this is something to which organisations should be encouraged to commit themselves, whether relevant provisions should be incorporated within the Combined Code on Corporate Governance and/or material on HCM should be included in company Operating and Financial Reviews (OFRs) (paragraphs 25-30)**

We agree that HCM reporting should be **a matter for the company Board** (paragraph 25). The Kingsmill Review of Women’s Employment and Pay said (paragraph 5.48) “increasing empirical evidence suggests that unless diversity and human capital management policies are integrated into the organisation’s key corporate objectives they stand little chance of succeeding. There needs to be a firm commitment from the board level of an organisation that diversity is a priority, if an organisation

truly wishes to become an employer of choice with the whole spectrum of its potential and actual labour market.”

Operating and Financial Review: We believe that the report of the Accounting for People task force should be put forward as guidance for Directors when reporting on HCM in the Operating and Financial Review. We have yet to analyse the report of The Operating and Financial Review Working Group on Materiality, however HCM is certainly an issue that may be reported on by a number of organisations in their OFR when Directors identify it as material, and we believe that the Task Force guidance as to best practice in this field could help encourage such reporting.

Combined Code on Corporate Governance: We support the suggestion in paragraph 27 of the Consultation Paper, that HCM reporting might be seen as an issue within the Combined Code on Corporate Governance. Within this Code companies are asked to certify that they have “an ongoing process for identifying, evaluating and managing the significant risks faced by the company”. Risk in this context is taken to embrace issues relating to “market, credit, liquidity, technological, legal, health, safety and environmental, reputation, and business probity issues”. Given the growing evidence that HCM is an important issue in terms of risk and reputation, it could be argued that reporting on it is therefore essential under existing law, and should be included in risk reporting. However amendment of the Combined Code to include reporting on HCM as part of a balanced and understandable assessment of the company’s position and prospects would strengthen the Code, and encourage more effective reporting on the issue.

Evolution of reporting standards

The Consultation Paper asks **how best to encourage progressive improvement in reporting standards, and in particular whether:**

- **a body should be established charged with monitoring and encouraging development of standards over time, including the role, composition and funding of any such body;**
- **there should be some recognition for organisations that met certain standards;**
- **there should be some award for exemplary or significantly improving organisations (paragraphs 31-32)**

We would strongly support the creation of **a body charged with monitoring and encouraging development of standards over time** (paragraph 31). While this body should include HR experts and Directors, investors, accounting bodies, trade union representatives, and other HCM experts and academics, **it should also include experts in gender equality and diversity.**

One of the roles of such a body might be to help the development of more **sector specific guidelines** in the future. The consultation paper raises the question as to whether the same recommendations should in principle apply across the board or whether distinctive reporting requirements should apply to each sector. We believe that it is important at this stage to lay out the broad basis for principles applying across the board, but that more detailed guidance should then be developed to focus on the distinctive issues that arise in different sectors. We would hope that the body created to monitor and develop the standards over time would work to encourage the development of these specific sector guidelines.

Recognition of organisations that met certain standards, in the form of an award, or by other means, may help to encourage best practice.

Public and private sector differences

The consultation paper asks **whether there are any special considerations that would mark out the public from the private sector, whether the same recommendations should in principle apply across the board or whether distinctive reporting requirements should apply to each sector.**

At present we do not have comments on this issue.

Kate Grosser
Visiting Fellow
International Centre for Corporate Social Responsibility
Nottingham University Business School
Jubilee Campus
Wollaton Rd
Nottingham, NG8 1BB
Tel: 01865 750407